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DIRECTORATE OF  
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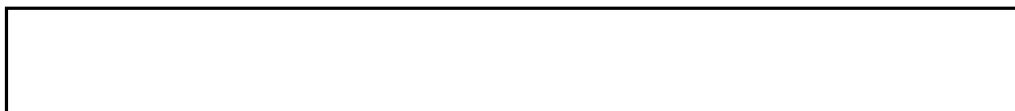
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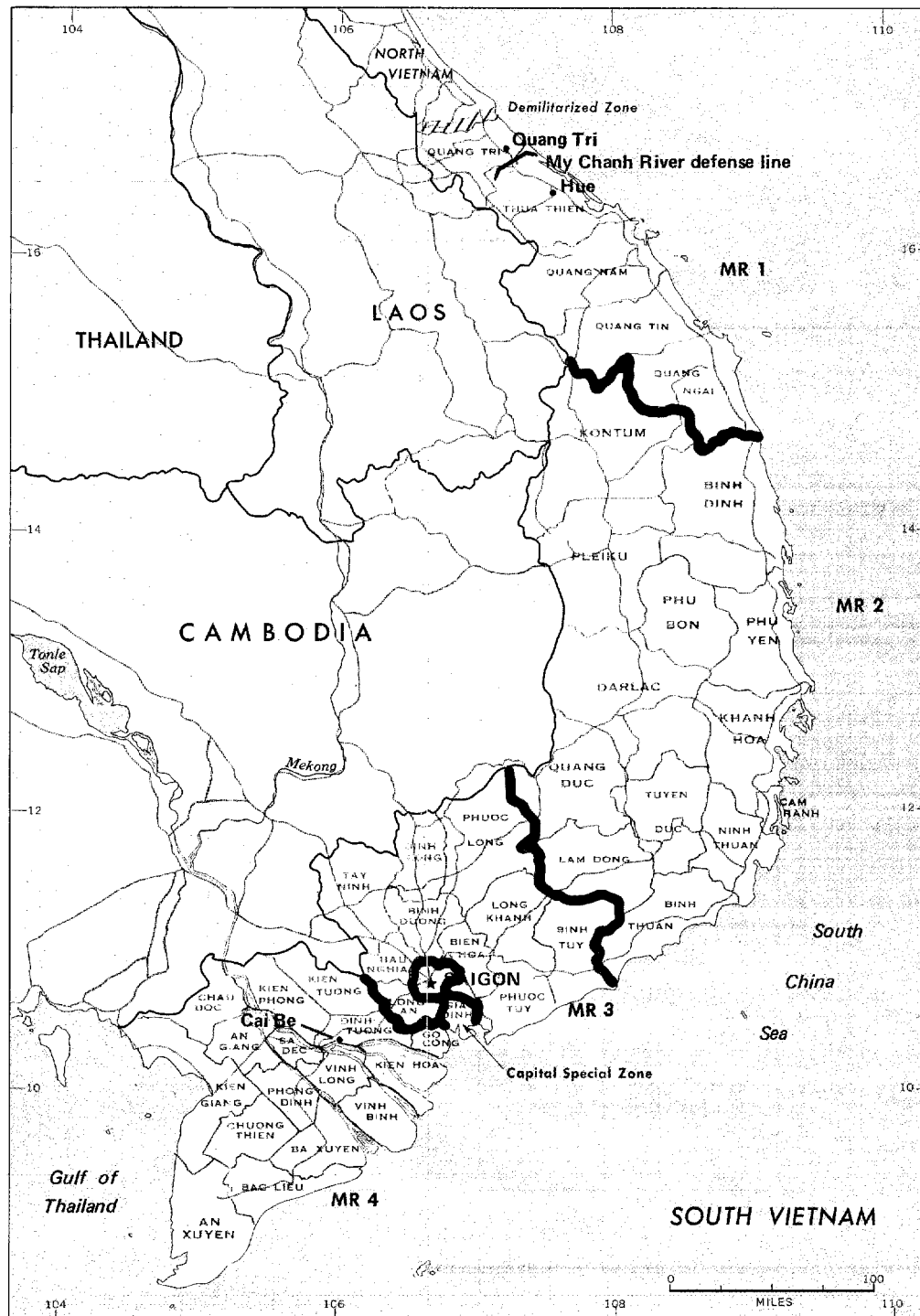
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**VIETNAM:** Additional government forces have entered Quang Tri City and are encountering little significant opposition.

The advance paratroop units that were airlifted into the town against only token resistance have been joined by additional airborne and armored elements moving up from the south. Marine forces now are closing in on Quang Tri after beating off two attacks less than five miles south and east of the town. Some Communist forces are believed to be still within the citadel area, but the bulk apparently pulled back to the northwest where they may be regrouping. Communist shelling of Hue and its western strongpoints has continued.

Only moderate fighting has been reported in most of the rest of the country, but Communist pressure continues to increase in the northern delta. The most recent significant fighting there involved a series of clashes in which South Vietnamese Army troops operating along an infiltration corridor near Cai Be district town took fairly heavy casualties.

\* \* \* \*

North Vietnam's spring rice crop, which normally accounts for about one third of the country's annual output, has been largely harvested. A good harvest is indicated by the generally favorable weather conditions, but residual damage from the devastating flood last year makes it unlikely the crop is of record size. Preparations now are under way for the important autumn rice crop; plans call for the cultivation of every available area by every available worker, including students and evacuees from the cities. Supplies from the present harvest should be sufficient until the next harvest in October-November, although there could be some belt-tightening or drawdowns from reserve stocks.

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(In calculating its food situation over the coming months, the regime apparently does not feel that drastic measures are currently required, but it is taking steps to funnel as much rice as possible into government-controlled distribution channels. In this way, it hopes to maintain stable prices, an equitable distribution of foodstuffs, and a hedge against a serious military situation or some new natural disaster. [REDACTED] markets are open, although activity has declined because non-essential residents have been evacuated and food is not as plentiful as before. There are no severe shortages, however, and official prices and rations are unchanged. [REDACTED]

[REDACTED]

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FRANCE: The choice of Gaullist purist Pierre Messmer as new prime minister is designed to placate hard-line Gaullists and unite bickering factions before national parliamentary elections are held.

The 56-year-old Messmer, minister for overseas territories and departments since February 1971, is one of the old-line Gaullists who rallied to De Gaulle and the Free French in 1940. He served almost ten years as De Gaulle's defense minister and presided over France's withdrawal from the integrated command structure of NATO and the build-up of France's nuclear force. Although he was excluded from early Pompidou cabinets, he apparently influenced policy through his ties with the right wing of the Gaullist party. His cabinet appointment in 1971 was interpreted as a sop to party militants who were disgruntled about domestic and foreign policy moves which they interpreted as a departure from traditional Gaullism.

Former prime minister Jacques Chaban-Delmas had been under fire for some time, particularly from orthodox Gaullists who thought him too liberal and from close advisers to Pompidou who believed his retention would damage the government's prospects in the elections. In recent months, the government has been embarrassed by a series of financial scandals--some of which implicated Gaullists--by its failure to win a massive vote of confidence in the April referendum on enlargement of the European Communities, and by unfavorable publicity over Chaban-Delmas' tax returns.

Pompidou's ouster of Chaban-Delmas and choice of Messmer suggest that the President has decided there is little value in cultivating the center vote. Despite his close ties to the center, Chaban-Delmas was unable to deliver the vote of many pro-European centrists in the referendum. Moreover, the recent accord on the program for governing signed by the opposition Communist and Socialist

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parties may have convinced Pompidou that the center in any case will be forced to gravitate toward the Gaullists.

Messmer's attitude toward the US is highly colored by his traditional Gaullist views. He is closely identified with two organizations which are strongly nationalistic and anti-US in flavor. One, which he heads, is the "Presence of Gaullism" movement, created as a watchdog after De Gaulle's death to ensure that any successor did not stray too far from Gaullist principles. The other, the chauvinistic Movement for the Independence of Europe, rejects the idea of a partnership between the US and Europe.

The new cabinet--probably to be named tomorrow--undoubtedly will be more Gaullist in character. Defense Minister Debre will remain in his present post, and Elysee sources say that Foreign Minister Schumann, who departed yesterday on an official visit to Peking, will also be retained.

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INDIA-PAKISTAN: Reaction to the Simla agreement of 3 July is cautiously optimistic in both countries.

Both opposition and government figures in India and Pakistan have hailed the agreement as a "first step" toward a durable peace. A favorable psychological climate toward improved relations apparently has been established, and, thus far, only a few right-wing opposition politicians in each country have criticized the agreement. It is recognized, however, that success depends on implementation of the provisions, such as troop withdrawals from occupied territory, and various other steps aimed at restoring relations. President Bhutto's call for an early special session of the National Assembly on 10 July to ratify the agreement is viewed in New Delhi as an indication of the Pakistani President's willingness to end his country's policy of confrontation.

Each side made concessions at Simla, but neither surrendered its basic position on two primary issues--a Kashmir settlement and repatriation of the prisoners of war. The leaders agreed to future negotiations on these problems, but the path could be long and difficult. Both sides' temporary acceptance of the present Kashmir ceasefire line merely deferred a solution of the problem.

Pakistan holds that continuation of the status quo in Kashmir preserves the principle that it is a disputed territory.

On the POW issue, India has not backed down from its insistence that repatriation of prisoners captured in Bangladesh must be endorsed by Dacca. Bhutto has indicated he will recognize Bangladesh before long, which would pave the way for normalizing relations. Another complication, however, is Mujib's determination to hold war crimes trials.

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INTERNATIONAL MONETARY DEVELOPMENTS: European and Japanese central banks have been forced to intervene to protect the dollar, now selling near its floor in all major foreign exchange markets. Additional capital controls may be imposed.

Central bank dollar purchases have been heaviest in Tokyo and Bonn. The Bank of Japan purchased \$160 million yesterday at a rate barely above the limit set by the Smithsonian realignment in December. Although the dollar rallied slightly yesterday in Europe, Frankfurt bankers estimate that the West German Government purchased \$550 to \$600 million on Monday and Tuesday to keep the dollar from falling below the internationally agreed level.

West German bankers anticipate a further tightening of controls because of Finance Minister Schiller's resignation. Schiller was rebuffed by his cabinet colleagues last week when they voted for controls on foreign purchases of German bonds. The Swiss Government also has taken tough new steps to halt speculative dollar inflows.

The pound has recovered significantly from its low on Tuesday. Nevertheless, it has depreciated by 6.3 percent against the dollar. The pound had touched a level equivalent to a 7.3-percent devaluation earlier in the week. On Tuesday, the UK Treasury announced a small drop in reserves for the month of June, the first decline in 18 months. [REDACTED]

[REDACTED]

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NOTES

JAPAN: The strike of the seamen's union, which is nearing the end of its third month, has had only a limited impact on Japanese trade and industry, but it is causing increasing problems. A shortage of crude oil in localized areas has shut down two refineries, and a general shortage could develop if the strike persists. Approximately 700 oceangoing ships have been idled by a general slowdown by dock workers and by their refusal to unload containerized ships or to work night shifts. [REDACTED]

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\* \* \* \*

FINLAND: The ruling Social Democrats, who recently threatened to end their minority government because parliament passed pension legislation exceeding government proposals, have decided to stay in office through the summer and resume coalition talks in August. President Kekkonen, who favors keeping the current government until nationwide municipal elections next fall, influenced the party's decision. The party or parties that inherit the government next fall will still face the problem of how to finance the greatly expanded pension plan. [REDACTED]

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